

**LYNDEN SCHOOL DISTRICT No. 504**  
**Whatcom County, Washington**  
**September 1, 1992 Through August 31, 1994**

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**Schedule Of Findings**

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1. The District Should Comply With Beneficial Interest Statutes

In fiscal year 1993, the district purchased \$19,888 of materials and supplies through a local business. During that period, a school board member was a partial owner in the same business.

*Revised Code of Washington* (RCW) 42.23.030 states in part:

. . . No municipal officer shall be beneficially interested, directly or indirectly, in any contract which may be made by, through or under the supervision of such officer . . . or accept, directly or indirectly, any compensation, gratuity or reward in connection with such contract . . . This section shall not apply in the following cases:

(6) The letting of any other contract . . . by a municipality, . . . other than . . . a first class school district: PROVIDED, That the total volume of business represented by such contract or contracts in which a particular officer is interested, singly or in the aggregate, . . . shall not exceed seven hundred fifty dollars in any calendar month. . . .

RCW 42.23.040 states in part:

A municipal officer shall not be deemed to be interested in a contract, within the meaning of RCW 42.23.030, if he has only a remote interest in the contract and if the fact and extent of such interest is disclosed to the governing body of the municipality of which he is an officer and noted in the official minutes or similar records of the municipality prior to the formation of the contract, and thereafter the governing body authorizes, approves, or ratifies the contract in good faith by a vote of its membership sufficient for the purpose without counting the vote or votes of the officer having the remote interest. As used in this section "remote interest" means: (1) That of a nonsalaried officer of a nonprofit corporation . . . (2) That of an employee or agent of a contracting party where the compensation of such employee or agent consists entirely of fixed wages or salary . . . .

School district officials thought these expenditures would not be considered conflicts of interest because the school board member was not directly involved in the acquisition of these materials or supplies. However, because profits made by the local business will be passed on to the board member, it appears the board member, pursuant to RCW 42.23.030, had a beneficial interest in these expenditures.

We recommend the district establish and enforce a policy of ethics which would cover such matters.

2. Inventory And Cash Receipt Controls Over The ASB Student Store Should Be Strengthened

During our audit we noted the following internal control weaknesses relating to Associated Student Body (ASB) student store inventory and cash receipts.

- a. There were no records of student store inventory being maintained.
- b. There were no cash receipts being maintained at the point of sale.
- c. There were no reconciliations being performed of cash receipts to expected revenue based upon goods sold.

RCW 43.09.200 states in part:

The system shall exhibit true accounts and detailed statements of funds collected, received and expended for account of the public for any purpose whatever, and by all public officers, employees or other persons.

The accounts shall show the receipt, use and dispositions of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain. . . .

The *Accounting Manual for Public School Districts in the State of Washington* provides guidance on performing a preaudit of revenues based upon goods sold. These procedures were not being followed by ASB supervisors.

The lack of proper inventory records and cash receipt procedures could lead to a loss of inventory and/or receipts which might not be detected in the normal course of operations.

We recommend the district continue to implement internal control procedures at the school level, including:

- a. Maintaining inventory records for goods held for resale.
- b. Proper cash receipting procedures to ensure funds received are deposited intact.
- c. Reconciling cash receipts to expected revenue based upon goods sold.